

# United States Senate

June 25, 2002

Lindy Paull, Chief of Staff  
Joint Committee on Taxation  
1015 Longworth House Office Building  
Washington, DC 20515

Dear Ms. Paull:

The Joint Committee on Taxation plays a critical role in the Congressional budget process. You can imagine our surprise and distress, therefore, when we discovered that the JCT was considering whether to make a substantial and highly controversial change in its methodology for estimating the cost of tax legislation. It is even more troubling that the committee you head has moved toward so significant a change in its traditional scoring methods without discussing the matter with the Senate Democratic leadership, the Chairman of the Senate Budget Committee, other Senate committee Chairmen, or other Senators who are key participants in the budget process.

We urge you as strongly as we can to suspend any plan to add a “dynamic” macroeconomic feedback element to the JCT estimates of the revenue effects of tax legislation until such a move can be openly and thoroughly discussed with all of the key participants in the Congressional budget process in both Houses of Congress. The impartiality and nonpartisanship of the JCT will be compromised if it moves ahead with dynamic macroeconomic scoring at the demand of, and in consultation with, only certain participants in the process.

As I am sure you are aware, providing estimates of the revenue effects from macroeconomic feedbacks of proposed tax legislation is extremely difficult and highly controversial. Congressional Budget Office Director Dan Crippen recently told the House Budget Committee:

*In terms of projecting the cost of legislation as it passes through the Congress, CBO's and JCT's formal estimates do not – and, I suggest, could not – include those macroeconomic effects in a useful and credible way....*

*CBO does not believe that “dynamic scoring” by it and JCT, incorporating the macroeconomic effects of legislative changes into the process of estimating a bill's cost, would improve the analysis provided to the Congress....The current process may be far from perfect, but it is also far better than one that would require dynamic scoring.*

Director Crippen has emphasized that, even for the most straightforward tax changes, equally plausible assumptions can result in either positive or negative dynamic effects. For more complex tax or spending proposals, estimating the dynamic effects becomes even more problematic. Finally, he has argued that requiring the JCT or CBO to do dynamic scoring of tax or spending bills would put their non-political staff in the inappropriate role of forecasting future political decisions.

Nor is Director Crippen alone in warning that, while the goal of taking macroeconomic feedback effects into account seems laudable, actually including such dynamic effects in cost estimates may be harmful to the budget process. In 1995 testimony before the Senate and House Budget Committees, Federal Reserve Board Chairman Greenspan said:

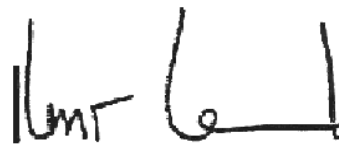
*[T]he analytical tools required to achieve [full dynamic estimates] are deficient. In fact, the goal ultimately may be unreachable. The estimation of full dynamic effects requires a model that both captures micro- and macroeconomic processes and produces reliable long-run forecasts of economic outcomes. Unfortunately, no such model exists....We must avoid resting key legislative decisions on controversial estimates of revenues and outlays.*

The JCT plays an important role in the Congressional Budget process. (CBO is required by law to use JCT's estimates of the effect of most changes in tax law in the cost estimates the Budget Act requires CBO to produce.) It is unacceptable for JCT to make a significant change in the way it carries out its responsibilities to the Congress at large without the agreement of the bipartisan leadership of both Houses of Congress, the tax writing committees, and the budget committees. Until all are convinced that it is possible for JCT to produce estimates of macroeconomic feedback effects of tax legislation in a manner that actually will improve the operation of the Congressional budget process, JCT should refrain from producing and disseminating such estimates.

Sincerely,

A handwritten signature in dark ink, appearing to read "Tom Daschle". The signature is fluid and cursive, with a large loop at the beginning.

Tom Daschle  
Majority Leader

A handwritten signature in dark ink, appearing to read "Kent Conrad". The signature is more angular and less cursive than the one to its left.

Kent Conrad  
Chairman, Senate Budget  
Committee